

SOUTH IOWA AREA DETENTION SERVICE AGENCY

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2005

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SOUTH IOWA AREA DETENTION SERVICE AGENCY

Officials

<u>Name</u>	<u>Title</u>	<u>Representing</u>
Steve McCoy	Executive Director	
Linda Butts	Facility Director – Lee County	
Mike Lamb	Facility Director – Lucas County	
Max Proctor	Chairman	Davis County
Willie Van Weelden	Vice Chairman	Mahaska County
Jerry Parker	Secretary/Treasurer	Wapello County
Dean Kaster	Member	Appanoose County
Don Irelan	Member	Union County
Edgar Blow	Member	Des Moines County
David Wilson	Member	Louisa County
Larry Kruse	Member	Lee County
Cathy Reese	Member	Lucas County
Richard Reed	Member	Jefferson County

SOUTH IOWA AREA DETENTION SERVICE AGENCY



Independent Auditor's Report

To the Board of Directors of the
South Iowa Area Detention Service Agency

I have audited the accompanying financial statements of the South Iowa Area Detention Service Agency as of and for the year ended June 30, 2005. These financial statements are the responsibility of the South Iowa Area Detention Service Agency's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the South Iowa Area Detention Service Agency at June 30, 2005, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued my report dated December 1, 2005 on my consideration of the South Iowa Area Detention Service Agency's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 8 through 12 and page 26 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements.

Sincerely,

Ann M Menke

Ann M. Menke
Certified Public Accountant
Professional Corporation
December 1, 2005

SOUTH IOWA AREA DETENTION SERVICE AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS

The South Iowa Area Detention Service Agency provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities of the South Iowa Area Detention Service Agency is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the Agency's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- The Agency's operating receipts decreased .3%, or approximately \$4,935, from fiscal 2004 to fiscal 2005.
- The Agency's operating disbursements decreased 1.5%, or approximately \$25,522, from fiscal 2004 to fiscal 2005.
- The Agency's net assets decreased approximately \$34,608. This was primarily due to the decline in billable days.

USING THIS ANNUAL REPORT

The South Iowa Area Detention Service Agency is a single Enterprise Fund and presents its financial statements using the economic resources measurement focus and accrual basis of accounting which is the same measurement focus and basis of accounting employed by private sector business enterprises. This discussion and analysis are intended to serve as an introduction to the South Iowa Area Detention Service Agency's basic financial statements. The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Agency's financial activities.

The Statement of Net Assets presents information on the Agency's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Assets is the basic statement of activities for proprietary funds. This statement presents information on the operating revenues and expenses, non-operating revenues and expenses and whether the Agency's financial position has improved or deteriorated as a result of the year's activities.

The Statement of Cash Flows presents the change in the Agency's cash and cash equivalents during the year. This information can assist the user of the report in determining how the Agency financed its activities and how it met its cash requirements.

The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

FINANCIAL ANALYSIS OF THE COMMISSION

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the Agency's financial position. The Agency's net assets for fiscal 2005 totaled approximately \$2,712,044. This compares to approximately \$2,746,652 for fiscal 2004. A summary of the Agency's net assets is presented below.

	Net Assets	
	June 30, 2005	2004
Current assets	\$ 1,018,444	\$ 925,792
Capital assets at cost, less accumulated depreciation	1,968,644	2,079,674
Other noncurrent assets	999	182,883
Total assets	2,988,087	3,188,349
Current liabilities	276,043	276,697
Noncurrent liabilities	0	165,000
Total liabilities	276,043	441,697
Net assets:		
Invested in capital assets, net of related debt	1,803,644	1,749,674
Unrestricted	908,400	996,978
Total net assets	\$ 2,712,044	\$ 2,746,652

The largest portion of the Agency's net assets in 2005 is the amount invested in capital assets (66.5%, e.g., land, buildings and equipment), less the related debt portion of net asset are resources allocated to capital assets. The remaining net assets (33.5%) are the unrestricted net assets that can be used to meet the Agency's obligations as they come due.

Statement of Revenues, Expenses and Changes in Net Assets

Operating revenues consist of county assessments, county transport fees, and other reimbursements. Operating expenses are expenses paid to operate the South Iowa Area Detention Service Agency. Non-operating revenues and expenses are interest income and interest expense. The utilization of capital assets is reflected in the financial statements as depreciation, which allocates the cost of an asset over its expected useful life. A summary of revenues, expenses and changes in net assets for the year ended June 30, 2005 is presented below:

Changes in Net Assets

	Year ended June 30,	
	2005	2004
Operating revenue:		
Charges for service	\$ 1,121,368	\$ 1,241,197
DHS reimbursement	547,509	431,570
Lunch program reimbursement	26,281	28,198
Miscellaneous income	1,657	785
Total operating revenue	1,696,815	1,701,750
Operating expenses:		
Salaries and wages	970,657	985,788
Employee benefits	263,716	278,222
Bad debt expense	-112	233
Depreciation and amortization	113,195	110,971
Dues and subscriptions	537	798
First aid and pharmacy expense	-347	3,250
Food service	53,875	78,088
Insurance	73,493	60,782
Juvenile clothing, linens, and other supplies	5,217	6,027
Office supplies, postage, and printing	6,049	7,228
Physician and other medical	15,063	16,393
Professional fees	49,094	42,159
Repairs and maintenance	36,609	26,582
Telephone	9,647	9,444
Training expense	3,878	5,036
Transports	90,090	88,073
Trash removal	2,755	2,573
Travel and auto expense	5,515	6,027
Utilities	33,074	29,853
Total operating expenses	1,732,005	1,757,527
Operating loss/income	-35,190	-55,777
Non-operating revenues (expenses):		
Interest income	7,757	5,968
Gain on sale of asset	0	1,805
Interest expense	-7,175	-44,516
Forgive capital loan note receivable with contributed capital	0	-350,000
Net non-operating expenses	582	-386,743
Decrease in net assets	-34,608	-442,520
Net assets beginning of year	2,746,652	3,189,172
Net assets end of year	\$ 2,712,044	\$ 2,746,652

The Statement of Revenues, Expenses and Changes in Net Assets show a loss in operating income this year due primarily to a decline in billable days. Overall net assets decreased as a result of this decline in average daily population. The increase in the DHS reimbursement helped to offset the loss.

The Agency's operating revenues decreased .3%, or approximately \$4,935, from fiscal 2004 to fiscal 2005. This was \$67,835 less than budgeted. The main reason for this decrease in revenues is that average daily population at the detention facilities declined.

The Agency's operating expenses decreased 1.5%, or approximately \$25,522, from fiscal 2004 to fiscal 2005. However, the operating expenses were \$148,734 less than budgeted. This decrease was primarily due to decreases in variable costs as a result of the lower average daily population.

The Agency's net assets decreased approximately \$34,608, or .1%, from June 30, 2004 to June 30, 2005.

Statement of Cash Flows

The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, capital and related financing and investing activities. Cash provided by operating activities includes service fees and transportation paid by counties and reimbursements paid by the state reduced by payments to employees and to suppliers. Cash used from capital and related financing activities includes capital loan principal and interest payments, as well as collection of capital loan notes receivable. Cash provided by investing activities includes interest income.

CAPITAL ASSETS

At June 30, 2005, the Agency had approximately \$1,968,644 in capital assets, net of accumulated depreciation of approximately \$1,325,120. Depreciation charges totaled \$113,195 for fiscal 2005. More detailed information about the Agency's capital assets is presented in Note 6 to the financial statements.

LONG-TERM DEBT

At June 30, 2005, the Agency had \$165,000 in debt outstanding, a decrease of \$165,000 from 2004. Additional information about the Agency's long-term debt is presented in Note 4 to the financial statements.

ECONOMIC FACTORS

A review of the fiscal year budget for the South Iowa Area Detention Service Agency showed actual operating income up from expectations by \$80,899, while operating revenue was down by \$67,835 from expectations and operating expenses were \$148,734 less than projected.

Current cash status showed a total of \$150,325 in all accounts.

The State Detention Reimbursement Fund collected approximately \$4,072,911, or 19% more than the previous year. Our reimbursement was \$547,509, which covered approximately 31.6% of our operating expenses for fiscal year 2005.

The fiscal year ended with 6,743 billing days, down approximately 900 days from fiscal year 2004. Overall, capacity and average daily population continues to be low at both locations; approximately 9.75 (46.33% capacity) at the Lee facility, and approximately 8.75 (41.58% capacity) at the Lucas facility. An average daily population of approximately 25 is necessary to meet expenses and approximately 30 to meet both expenses and pay the debt service principal and interest. There are several possible explanations for the low numbers, such as improper placement, less beds required by Meyer Hall for the majority of the year, a significant increase in the total number of detention beds available in the state resulting in lower demand of non-member counties who are able to find bed space at other agencies with less transportation required.

CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide our members, taxpayers, customers, and creditors with a general overview of the Agency's finances and to show the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Steve McCoy, Executive Director, South Iowa Area Detention Service Agency, 212 Glasgow Road, Fairfield, Iowa, 52556.

SOUTH IOWA AREA DETENTION SERVICE AGENCY

BASIC FINANCIAL STATEMENTS

SOUTH IOWA AREA DETENTION SERVICE AGENCY
STATEMENT OF NET ASSETS
June 30, 2005

Assets

Current assets:

Cash	\$ 150,325
Accounts receivable - Counties, net of allowance of \$3,400	112,224
Accounts receivable - DHS	547,509
Interest receivable	193
Prepaid insurance	43,193
Notes receivable, current portion	165,000
Total current assets	<u>1,018,444</u>

Noncurrent assets:

Capital assets (net of accumulated depreciation)	1,968,644
Capital loan note certificate discount, net of amortization	999
Total noncurrent assets	<u>1,969,643</u>

Total assets

2,988,087

Liabilities

Current liabilities:

Accounts payable	25,821
Salaries and benefits payable	52,289
Compensated absences	32,658
Interest payable	275
Current portion of capital loan payable	165,000
Total current liabilities	<u>276,043</u>

Total liabilities

276,043

Net assets

Invested in capital assets, net of related debt	1,803,644
Unrestricted	908,400
Total net assets	<u><u>\$ 2,712,044</u></u>

See notes to financial statements.

SOUTH IOWA AREA DETENTION SERVICE AGENCY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year Ended June 30, 2005

Operating revenues:	
Charges for service	\$ 1,121,368
DHS reimbursement	547,509
Lunch program reimbursement	26,281
Miscellaneous income	1,657
	<hr/>
Total operating revenues	1,696,815
	<hr/>
Operating expenses:	
Salaries and wages	970,657
Employee benefits	263,716
Bad debt expense	(112)
Depreciation and amortization	113,195
Dues and subscriptions	537
First aid and pharmacy expense	(347)
Food service	53,875
Insurance	73,493
Juvenile clothing, linens, and other supplies	5,217
Office supplies, postage, and printing	6,049
Physician and other medical	15,063
Professional fees	49,094
Repairs and maintenance	36,609
Telephone	9,647
Training expense	3,878
Transports	90,090
Trash removal	2,755
Travel and auto expense	5,515
Utilities	33,074
	<hr/>
Total operating expenses	1,732,005
	<hr/>
Operating loss	(35,190)
	<hr/>
Non-operating revenues (expenses)	
Interest income	7,757
Interest expense	(7,175)
	<hr/>
Net non-operating expenses	582
	<hr/>
Change in net assets	(34,608)
Net assets beginning of year	2,746,652
	<hr/>
Net assets end of year	\$ 2,712,044
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See notes to financial statements.

SOUTH IOWA AREA DETENTION SERVICE AGENCY
STATEMENT OF CASH FLOWS
Year Ended June 30, 2005

Cash flows from operating activities:

Cash received from services	\$ 1,008,667
Cash received from reimbursements	573,790
Cash received from other operating receipts	1,657
Cash paid to suppliers for goods and services	(365,597)
Cash paid to employees for services	(1,232,110)
Net cash used by operating activities	<u>(13,593)</u>

Cash flows from capital and related financing activities:

Principal paid on capital loan	(165,000)
Interest paid on capital loan	(7,175)
Collection of capital loan note receivable	165,000
Net cash used by capital and related financing activities	<u>(7,175)</u>

Cash flows from investing activities

Interest received	<u>7,776</u>
Net cash provided by investing activities	<u>7,776</u>

Net decrease in cash and cash equivalents	(12,992)
Cash and cash equivalents beginning of year	163,317
Cash and cash equivalents end of year	<u><u>\$ 150,325</u></u>

Reconciliation of operating income to net cash provided by operating activities:

Operating income	\$ (35,190)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	113,195
Bad debt provision	(112)
Changes in assets and liabilities:	
Increase in accounts receivable	(112,700)
Increase in prepaid expenses	21,869
Increase in accounts payable	(2,918)
Increase in accrued liabilities	2,263
Total adjustments	<u>21,597</u>
Net cash provided by operating activities	<u><u>\$ (13,593)</u></u>

See notes to financial statements.

SOUTH IOWA AREA DETENTION SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The South Iowa Area Detention Service Agency was formed in 1991 by ten Southern Iowa member counties, pursuant to the provisions of Chapter 28E of the Code of Iowa. The Agency operates two juvenile detention facilities located in Chariton, Iowa and Montrose, Iowa. The Agency is governed by a Board comprised of one representative from each of the following member counties: Appanoose, Davis, Des Moines, Jefferson, Lee, Lucas, Louisa, Mahaska, Union, and Wapello. In the performance of its duties, the Board may cooperate with, contract with, and accept and expend funds from federal, state, or local agencies, public or semi-public, private individuals or corporations, and may carry out such cooperative undertakings and contracts as provided by law. The Agency's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, the South Iowa Area Detention Service Agency has included all funds, organizations, agencies, boards, commissions, and authorities. The Agency has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Agency are such that exclusion would cause the Agency's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Agency to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Agency. The South Iowa Area Detention Service Agency has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

Several members of the Agency's board of directors are also board members of the South Iowa Area Crime Commission, which is a jointly governed organization since it provides services to the member counties of the Agency but does not meet the criteria of a joint venture.

B. Basis of Presentation

The accounts of the South Iowa Area Detention Service Agency are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

SOUTH IOWA AREA DETENTION SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Agency applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Agency distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Agency's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Budgets

The Agency annually adopts a budget on the accrual basis. The annual budget may be amended during the year upon approval of the Board.

E. Assets, Liabilities, and Net Investments

The following accounting policies are followed in preparing the Statement of Net Assets:

Cash, Investments and Cash Equivalents – The Agency considers all short-term cash investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and they have an original maturity of one year or less.

Capital Assets – Capital assets are accounted for at historical cost or estimated historical costs if actual cost is not available. Donated assets are valued at their estimated fair value on the date of donation. Depreciation of all exhaustible capital assets is charged as an expense against operations. The cost of repair and maintenance is charged to expense, while the cost of renewals or substantial betterments is capitalized. The cost and accumulated depreciation of assets disposed of are deleted, with any gain or loss recorded in current operations.

SOUTH IOWA AREA DETENTION SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (continued) – Reportable capital assets are defined by the Agency as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Buildings and improvements	\$ 25,000
Equipment and vehicles	4,000

Capital assets of the Agency are depreciated using the straight-line method over the following estimated useful lives:

Buildings	25-35 years
Equipment and furnishings	5-10 years
Vehicles	3-8 years

Interest is capitalized on qualified assets acquired with certain tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. There were no qualifying assets acquired during the year ended June 30, 2005.

Capital Loan Note Certificate Discount – The Capital Loan Note Certificate Discount is amortized ratably over the period of the notes.

Income Taxes – The Agency is exempt from federal and state income taxes.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Compensated Absences – Agency employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use. Unused vacation hours are paid upon termination, retirement, or death. Employees accumulate sick leave up to a maximum of 108 days. If not used this sick leave is lost except upon retirement at which time the agency will buy back the unused sick leave at a rate of one hour for every three hours unused provided the employee is eligible to retire in accordance with IPERS guidelines. The Agency's approximate liability for earned vacation payable to employees at June 30, 2005, is \$32,658. The maximum potential liability for employee sick leave at June 30, 2005 is \$221,923. This liability has been computed based on rates of pay as of June 30, 2005.

SOUTH IOWA AREA DETENTION SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

NOTE 2 – CASH AND INVESTMENTS

The Agency's deposits in banks at June 30, 2005 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Agency is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposits or other evidences of deposit at federally insured depository institutions approved by the Agency Board; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Investments are stated at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The Agency had no investments at June 30, 2005 other than those described below.

The Agency had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$83,826 at June 30, 2005 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk. The Agency's investment policy limits the investment of operating funds (funds to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Agency.

Credit risk. The Agency's investment in Iowa Public Agency Investment Trust is unrated.

NOTE 3 – CAPITAL LOAN NOTES RECEIVABLE

On May 1, 1991, pursuant to the provisions of section 331.402 of the Code of Iowa, the ten member counties issued General Obligation Capital Loan Notes totaling \$2,300,000 to the Agency for the member counties' purchase of an undivided interest in the juvenile detention facilities. These notes were issued to the Agency to guarantee the payment of the capital loan note certificates payable described in Note 4.

The Agency may forgive the payments due from the counties in years when the Agency's operations provide cash flow sufficient enough to make the required principal and interest payments for the capital loan note certificates payable.

**SOUTH IOWA AREA DETENTION SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2005**

NOTE 3 – CAPITAL LOAN NOTES RECEIVABLE (Continued)

The maturities of principal and interest for the Capital Loan notes receivable are as follows:

Year Ending June 30,	Interest Rate	Principal	Interest	Total
2006	2.00%	<u>165,000</u>	<u>3,300</u>	<u>168,300</u>
		<u>\$165,000</u>	<u>\$ 3,300</u>	<u>\$168,300</u>

NOTE 4 – CAPITAL LOAN NOTES CERTIFICATES PAYABLE

On May 1, 2004 the Agency issued capital loan note certificates payable in the amount of \$330,000 to refund the capital loan note certificates issued in 1991. The certificates are guaranteed by individual general obligation capital loan note agreements with the member counties. Under the terms of the note agreements, the individual member counties will make annual payments to the Agency for payment of the certificates and interest as they come due.

The annual debt service requirements to maturity for the capital loan notes certificates are as follows:

Year Ending June 30,	Interest Rate	Principal	Interest	Total
2006	2.00%	<u>165,000</u>	<u>3,300</u>	<u>168,300</u>
		<u>\$165,000</u>	<u>\$ 3,300</u>	<u>\$168,300</u>

NOTE 5 – PENSION AND RETIREMENT BENEFITS

The Agency contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.7% of their annual covered salary and the Agency is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2005, 2004 and 2003. Contribution requirements are established by State statute. The Agency's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$55,529, \$56,583, and \$55,361, respectively, equal to the required contribution for each year.

SOUTH IOWA AREA DETENTION SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

NOTE 6 – CAPITAL ASSETS

A summary of capital assets at June 30, 2005 is as follows:

	Balance Beginning Of Year	Increases	Decreases	Balance End Of Year
Capital assets being depreciated:				
Buildings and improvements	\$ 3,084,959	-	-	\$ 3,084,959
Equipment and furnishings	169,305	-	-	169,305
Vehicles	39,500	-	-	39,500
Total capital assets being depreciated	3,293,764	-	-	3,293,764
Less accumulated depreciation for:				
Buildings and improvements	1,052,012	102,832	-	1,154,844
Equipment and furnishings	135,448	5,338	-	140,786
Vehicles	26,630	2,860	-	29,490
Total accumulated depreciation	1,214,090	111,030	-	1,325,120
Total capital assets, net	\$ 2,079,674	(111,030)	-	\$ 1,968,644

NOTE 7 – RISK MANAGEMENT

The Commission is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 509 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, and inland marine. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

SOUTH IOWA AREA DETENTION SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

NOTE 7 – RISK MANAGEMENT (Continued)

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The Commission's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The Commission's annual contributions to the Pool for the year ended June 30, 2005 were \$47,722.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pools' intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2005, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The Commission also carries commercial insurance purchased from other insurers for coverage associated with worker's compensation. The Commission assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

SUPPLEMENTAL INFORMATION

SOUTH IOWA AREA DETENTION SERVICE AGENCY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
ACTUAL TO BUDGET
Year Ended June 30, 2005

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE</u>
Operating revenues:			
Charges for service	\$ 1,121,368	\$ 1,385,000	\$ (263,632)
DHS reimbursement	547,509	350,000	197,509
Lunch program reimbursement	26,281	29,000	(2,719)
Miscellaneous income	1,657	650	1,007
Total operation revenues	<u>1,696,815</u>	<u>1,764,650</u>	<u>(67,835)</u>
Operating expenses:			
Salaries and wages	970,657	1,022,591	51,934
Employee benefits	263,716	307,597	43,881
Advertising	-	100	100
Bad debts	(112)	-	112
Depreciation and amortization	113,195	165,000	51,805
Dues and subscriptions	537	750	213
First aid and pharmacy expense	(347)	10,000	10,347
Food service	53,875	90,000	36,125
Insurance	73,493	70,000	(3,493)
Juvenile clothing, linens, and other supplies	5,217	7,000	1,783
Office supplies, postage, and printing	6,049	8,250	2,201
Physician and other medical	15,063	17,800	2,737
Professional fees	49,094	35,801	(13,293)
Repairs and maintenance	36,609	22,850	(13,759)
Telephone	9,647	10,000	353
Training expense	3,878	5,000	1,122
Transports	90,090	75,000	(15,090)
Trash removal	2,755	2,500	(255)
Travel and auto expense	5,515	5,500	(15)
Utilities	33,074	25,000	(8,074)
Total operating expenses	<u>1,732,005</u>	<u>1,880,739</u>	<u>148,734</u>
Operating income	(35,190)	(116,089)	80,899
Non-operating revenues (expenses)			
Interest income	7,757	3,250	4,507
Interest expense	(7,175)	(8,044)	869
Net non-operating expenses	<u>582</u>	<u>(4,794)</u>	<u>5,376</u>
Net income	<u><u>\$ (34,608)</u></u>	<u><u>\$ (120,883)</u></u>	<u><u>\$ 86,275</u></u>

See accompanying notes.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS**



Independent Auditor's Report on
Internal Control over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Directors of the
South Iowa Area Detention Service Agency

I have audited the accompanying financial statements of the South Iowa Area Detention Service Agency as of and for the year ended June 30, 2005, and have issued my report thereon dated December 1, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the South Iowa Area Detention Service Agency's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the South Iowa Area Detention Service Agency's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I believe item 2005-I-A is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the South Iowa Area Detention Service Agency's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the South Iowa Area Detention Service Agency's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the South Iowa Area Detention Service Agency. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of the South Iowa Area Detention Service Agency and other parties to whom the South Iowa Area Detention Service Agency may report. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the South Iowa Area Detention Service Agency during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

Sincerely,

Ann M Menke

Ann M. Menke
Certified Public Accountant
Professional Corporation
December 1, 2005

**SOUTH IOWA AREA DETENTION SERVICE AGENCY
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2005**

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

2005-I-A:

Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. I noted that the same individual who prepares the bank deposits may also prepare billings, maintain cash receipts and accounts receivable records, prepare checks, and record disbursements in the accounting records.

Recommendation – I realize that with a limited number of office employees, segregation of duties is difficult. However, the Agency should continue to review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response – Due to the limited number of office employees, segregation of duties is very difficult. However, we will have the manager and other staff, where appropriate, review receipts, invoices and bill payments, and payroll as much as possible.

Conclusion – Response accepted.

**SOUTH IOWA AREA DETENTION SERVICE AGENCY
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2005**

Part II: Other Findings Related to Statutory Reporting:

2005-II-A

Official Depositories – A resolution naming official depositories has been approved by the Agency. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

2005-II-B

Questionable Disbursements –No expenses that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

2005-II-C

Travel Expense – No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted.

2005-II-D

Business Transactions – No business transactions between the Agency and Agency officials or employees were noted.

2005-II-E

Bond Coverage – Surety bond coverage of Agency officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

2005-II-F

Agency Meetings – No transactions were found that I believe should have been approved in the Agency minutes but were not.

2005-II-G

Capital Loan Notes – The Agency is in compliance with all requirements of its capital loan note agreements.

2005-II-H

Deposits and Investments – We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Agency's investment policy.

SOUTH IOWA AREA DETENTION SERVICE AGENCY

Audit Staff

The audit was performed by:

Ann M. Menke, CPA
Carol Ross, CPA
Betty Thomas, CPA